



ROD BLAGOJEVICH
GOVERNOR

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF
MANAGEMENT AND BUDGET

JOHN B. FILAN
DIRECTOR

FISCAL YEAR 2005 SECOND QUARTER FINANCIAL REVIEW

Table I
OPERATING HIGHLIGHTS*
Second Quarter
FY2004 vs. FY2005
(in millions)

	Second Quarter				YTD			
	FY 04	FY 05	Change	% Change	FY 04	FY 05	Change	% Change
OPERATIONS								
General Funds Revenues**	\$ 5,527	\$ 5,332	\$ (195)	-3.5%	\$ 11,156	\$ 11,286	\$ 130	1.2%
Operating Transfers In	\$ 412	\$ 501	\$ 89	21.6%	\$ 831	\$ 1,105	\$ 274	33.0%
Total Revenues and Operating Transfers In	\$ 5,939	\$ 5,833	\$ (106)	-1.8%	\$ 11,987	\$ 12,391	\$ 404	3.4%
Pension Obligation Reimbursement Transfers	\$ 444	\$ -	\$ (444)	-100.0%	\$ 965	\$ -	\$ (965)	-100.0%
Total Operating Receipts	\$ 6,383	\$ 5,833	\$ (550)	-8.6%	\$ 12,952	\$ 12,391	\$ (561)	-4.3%
General Funds Expenditures	\$ 5,720	\$ 5,389	\$ (331)	-5.8%	\$ 12,044	\$ 10,421	\$ (1,623)	-13.5%
Operating Transfers Out***	\$ 406	\$ 483	\$ 77	19.0%	\$ 875	\$ 1,324	\$ 449	51.3%
Total Operating Disbursements	\$ 6,126	\$ 5,872	\$ (254)	-4.1%	\$ 12,919	\$ 11,745	\$ (1,174)	-9.1%
Cash Basis Operating Surplus/(Deficit)	\$ 257	\$ (39)	\$ (296)	N/A	\$ 33	\$ 646	\$ 613	1857.6%

* Refer to Appendix I for details.

**FY04 revenues include Tax Amnesty Receipts.

*** Excludes Transfer Out to repay Short-Term Borrowing, which is shown in Table II as a Financing Use.

OPERATING HIGHLIGHTS

As illustrated in Table I and detailed in Appendix I, total state and federal revenues totaled \$5,332 million, or \$195 million (3.5%) below fiscal year 2004's level. Revenues and Operating Transfers In for the second quarter of fiscal year 2005 were \$5,833 million, a \$106 million (1.8%) decrease from comparable collections of fiscal year 2004. These decreases were primarily attributable to Tax Amnesty receipts collected in fiscal year 2004, a one-time increase in the Federal Medicaid reimbursement rate during fiscal year 2004, and two fewer receipt days in fiscal year 2005 than for the same period in fiscal year 2004. Total Operating Receipts were down by \$550 million (8.6%), of which \$444 million was a one-time Pension Obligation Reimbursement Transfer in fiscal year 2004. Total expenditures were down by 5.8% or \$331 million in the second quarter of fiscal year 2005. The decrease is mainly due to reduced Operations spending.

REVENUES AND OPERATING TRANSFERS IN

Excluding Federal revenues, total State Revenues actually increased by \$35 million. All major state revenue sources were up slightly from fiscal year 2004, except for Public Utility Taxes and Insurance Taxes and Fees.

- **Income Taxes (\$7 million increase):** Gross Individual Income Tax collections were up by 2.7% or \$49 million from the second quarter of fiscal year 2004. However, excluding fiscal year 2004's Tax Amnesty effect, Gross Individual Income Taxes would have increased by \$87 million. Year-to-date increase in Gross Individual Income tax was \$105 million, or 2.9%.

Gross Corporate Income Tax collections were down by 33% to \$134 million in the second quarter. Those collections would have increased by \$86 million (2%) in the second quarter if last year's Tax Amnesty receipts were excluded.

Net income tax revenues deposited into the General Funds increased by \$7 million in the second quarter. The net increase in the General Funds was due to a \$92 million reduction in deposits into the Income Tax Refund Fund, reflecting the elimination of the Income Tax Refund backlog. Through the first half of fiscal year 2005, net income tax receipts were 4.4% or \$157 million above the prior year's level.

- **Sales Taxes (\$4 million increase):** Sales Taxes went up slightly in the second quarter of fiscal year 2005 compared to the same period a year ago. Excluding the one-time Tax Amnesty collected in fiscal year 2004, the fiscal year 2005 increase would have been \$99 million. In the first six months, Sales Taxes have increased by \$100 million (\$195 million if the amnesty receipts in fiscal year 2004 was excluded).
- **Cigarette Taxes (\$9 million increase):** The growth was due to a one-time legislative change to reallocate \$50 million to General Funds in fiscal year 2005, of which \$41 million occurred in the first quarter.
- **Public Utility Taxes (\$31 million decrease):** \$21 million of the decrease was primarily due to reduced Electricity Excise Tax receipts attributable to the relatively cool summer and corresponding reduction in air conditioning usage. The remaining decrease of \$10 million was due to tax amnesty receipts in fiscal year 2004.
- **Inheritance Taxes (\$11 million increase):** The 19% growth was primarily due to the settlement of large estates and the decoupling from federal tax requirements that occurred last year.
- **Cook County Intergovernmental Transfers (\$17 million increase):** The growth was due to the incremental increase of fiscal year 2005 over fiscal year 2004 as mandated by the Federal Medicare, Medicaid, and State Children's Health Insurance Program (SCHIP) Benefits Improvement and Protection Act of 2000.
- **Other Revenues (\$17 million increase):** Investment Income increased by \$10 million in the second quarter of fiscal year 2005. Liquor Gallonage Taxes and Corporate Franchise Tax and Fees each increased by \$6 million. Insurance Taxes and Fees decreased by \$5 million.

- **Operating Transfers In (\$89 million increase):** The change was partly attributable to a \$12 million increase from Administrative Chargebacks for fiscal year 2004 (collected in fiscal year 2005) and transfers (\$98 million) of excess cash from other state funds to the General Revenue Fund as provided in fiscal year 2005 budget. There are no scheduled Transfers In from the Pension Contribution Fund for fiscal year 2005.
- **Federal Revenues (\$230 million decrease):** In the second quarter, federal revenues totaled \$988 million. The \$230 million decrease from the prior fiscal year was largely due to the second installment (\$211 million) of the \$422 million one-time federal payment under the Medicaid Assistance Package received in fiscal year 2004. In addition, there was a one-time increase in the Medicaid reimbursement rate from 50% to 53% in fiscal year 2004. The rate returned to 50% in fiscal year 2005, contributing to the decrease in federal receipts.

DISBURSEMENTS (EXPENDITURES AND TRANSFERS OUT)

As further detailed in Appendix II, Total Disbursements (including Short-term Borrowing Repayments of \$278 million) were \$6,150 million, a reduction of \$206 million over the previous year.

Award and Grants (\$366 million increase): Increased spending during the second quarter included Public Aid, State Board of Education, Human Services and All Other Grants. The \$158 million increased spending in Public Aid was due to Medicaid liabilities. State Board of Education spending increased by \$105 million due to increased fiscal year 2005 appropriations for specific grant programs. The \$73 million increase in Human Services spending was due to increased fiscal year 2005 appropriations in Child Care and Home Services Programs, and advanced payment for fee-for-service Contracts.

Operations (\$181 million decrease): In the second quarter, total Operations Disbursements decreased by \$181 million, continuing the trend of fiscal year 2004 being less than fiscal year 2003.

- **Higher Education (\$71 million decrease):** The second quarter spending in fiscal year 2005 was 14% lower than the comparable period last year. This was because Higher Education agencies did not receive General Funds budgets until August 2004 and their spending continues to lag. Payment delays also contributed to the decrease in cash disbursements.
- **Regular Operating Expenditures (\$110 million decrease):** The decrease was consistent with the administration's cost reduction goals, through such actions as reduction in headcount and consolidation of State agencies and functions.

Operating Transfers Out and Transfers to Repay Short-term Borrowing (\$125 million increase): Transfers Out totaled \$761 million (\$483 million of Operating Transfers Out and a \$278 million transfer to repay short-term borrowing) in the second quarter of fiscal year 2005. The short-term borrowing was incurred to provide liquidity needed to take advantage of the higher Federal reimbursement rate that applied to fiscal year 2004. The increase over last year's level was primarily due to increased debt services transfers, including remaining transfers to repay general obligation bonds and short-term borrowing.

FINANCIAL POSITION

In the second quarter of fiscal year 2005, total disbursements exceeded total receipts by \$41 million, decreasing the State's General Funds cash balance from \$292 million on September 30, 2004, to \$251 million on December 31, 2004. A Summary is provided in Table II and details are included in Appendix II.

Liquidity

General Funds Accounts Payable went up from \$1,236 million to \$1,589 million on December 31, 2004. The increase was primarily due to Medicaid payables backlog of 50.5 days, consistent with the fiscal year 2005 Budget's assumptions. Income Tax Refund liabilities fell from \$54 million to \$7 million by the end of the second quarter of fiscal year 2005.

Table II
FINANCIAL POSITION SUMMARY
Second Quarter
FY2004 vs. FY2005
(in millions)

	<u>FY 04</u>	<u>FY 05</u>	<u>Change</u>
CASH BALANCE			
General Funds Cash Balance (9/30)	\$ 319	\$ 292	\$ (27)
Cash Basis Operating Surplus/(Deficit) in the Second Quarter	\$ 257	\$ (39)	\$ (296)
Transfer Out to Repy Short-Term Borrowing	\$ (230)	\$ (278)	\$ (48)
Transfer In from Budget Stabilization Fund	\$ -	\$ 276	\$ 276
General Funds Cash Balance (12/31)	\$ 346	\$ 251	\$ (95)
Budget Stabilization Fund Cash Balance (12/31)	\$ -	\$ -	\$ -
Total Cash Balance (12/31)	\$ 346	\$ 251	\$ (95)
CURRENT LIABILITIES			
General Funds Accounts Payable (12/31)	\$ 1,236	\$ 1,589	\$ 353
Income Tax Refunds Payable (12/31)			
Individual	\$ 7	\$ 54	\$ 47
Corporate			
Total	\$ 1,243	\$ 1,643	\$ 400

APPENDIX I
CASH RECEIPTS
Second Quarter FY04 vs. FY05
(in millions)

	Second Quarter		Change		YTD		Change	
	FY 2004	FY2005	Amount	Percent	FY 2004	FY2005	Amount	Percent
Cash Basis Receipts:								
State Revenues:								
Gross Individual Income Tax	\$ 1,798	\$ 1,847	\$ 49	2.73%	\$ 3,610	\$ 3,715	\$ 105	2.9%
Gross Corporate Income Tax	\$ 410	\$ 276	\$ (134)	-32.67%	\$ 607	\$ 557	\$ (50)	-8.2%
Deposits to Income Tax Refund Fund	\$ (343)	\$ (251)	\$ 92	-26.81%	\$ (618)	\$ (516)	\$ 102	-16.5%
Total, Net Income Taxes	\$ 1,865	\$ 1,872	\$ 7	0.38%	\$ 3,599	\$ 3,756	\$ 157	4.4%
Sales Taxes	\$ 1,656	\$ 1,660	\$ 4	0.24%	\$ 3,233	\$ 3,333	\$ 100	3.1%
Other State Revenues:								
Public Utility Taxes	\$ 292	\$ 261	\$ (31)	-10.62%	\$ 521	\$ 511	\$ (10)	-1.9%
Cigarette Taxes	\$ 100	\$ 109	\$ 9	9.00%	\$ 200	\$ 250	\$ 50	25.0%
Inheritance Tax (gross)	\$ 58	\$ 69	\$ 11	18.97%	\$ 100	\$ 138	\$ 38	38.0%
Liquor Gallonage Taxes	\$ 32	\$ 38	\$ 6	18.75%	\$ 64	\$ 76	\$ 12	18.8%
Insurance Tax and Fees	\$ 79	\$ 74	\$ (5)	-6.33%	\$ 153	\$ 168	\$ 15	9.8%
Corp. Franchise Tax and Fees	\$ 39	\$ 45	\$ 6	15.38%	\$ 75	\$ 87	\$ 12	16.0%
Investment Income	\$ 10	\$ 20	\$ 10	100.00%	\$ 30	\$ 28	\$ (2)	-6.7%
Cook County IGT	\$ 99	\$ 116	\$ 17	17.17%	\$ 176	\$ 193	\$ 17	9.7%
Other ¹	\$ 79	\$ 80	\$ 1	1.27%	\$ 134	\$ 205	\$ 71	53.0%
Total, Other State Revenues	\$ 788	\$ 812	\$ 24	3.05%	\$ 1,453	\$ 1,656	\$ 203	14.0%
Total, State Revenues	\$ 4,309	\$ 4,344	\$ 35	0.81%	\$ 8,285	\$ 8,745	\$ 460	5.6%
Federal Revenues:								
Cash Receipts	\$ 1,209	\$ 978	\$ (231)	-19.10%	\$ 2,850	\$ 2,053	\$ (797)	-28.0%
Transfers In ²	\$ 9	\$ 10	\$ 1	5.56%	\$ 21	\$ 488	\$ 467	2223.8%
Total, Federal Revenues	\$ 1,218	\$ 988	\$ (230)	-18.92%	\$ 2,871	\$ 2,541	\$ (330)	-11.5%
Total, Revenues	\$ 5,527	\$ 5,332	\$ (195)	-3.54%	\$ 11,156	\$ 11,286	\$ 130	1.2%
Transfers In:								
Lottery Fund	\$ 142	\$ 137	\$ (5)	-3.52%	\$ 250	\$ 280	\$ 30	12.0%
State Gaming Fund	\$ 199	\$ 202	\$ 3	1.71%	\$ 395	\$ 397	\$ 2	0.6%
Other Funds ³	\$ 71	\$ 162	\$ 91	127.61%	\$ 186	\$ 428	\$ 242	129.9%
Total, Transfers In	\$ 412	\$ 501	\$ 89	21.60%	\$ 831	\$ 1,105	\$ 274	33.0%
Total, Revenues and Transfers In	\$ 5,939	\$ 5,833	\$ (106)	-1.79%	\$ 11,987	\$ 12,391	\$ 404	3.4%
Transfer from Pension Contribution Fund ⁴	\$ 444	\$ -	\$ (444)	-100.00%	\$ 965	\$ -	\$ (965)	-100.0%
Total, Operating Cash Receipts	\$ 6,383	\$ 5,833	\$ (550)	-8.62%	\$ 12,952	\$ 12,391	\$ (561)	-4.3%
Short-Term Borrowing	\$ -	\$ -	\$ -	n/a	\$ -	\$ -	\$ -	n/a
Transfer from Budget Stabilization Fund	\$ -	\$ 276	\$ 276	n/a	\$ 226	\$ 276	\$ 50	22.1%
TOTAL, CASH RECEIPTS	\$ 6,383	\$ 6,109	\$ (274)	-4.30%	\$ 13,178	\$ 12,667	\$ (511)	-3.9%

¹ Does not include Riverboat Gaming Taxes, which are included in Transfers In from State Gaming Fund.

² Includes \$433 million federal reimbursement resulting from the \$850 million Short-Term Borrowing for Medicaid used to generate additional federal reimbursement in FY04.

³ FY04 Other Transfers In does not include the \$144 million in transfers that occurred in July 2003 that should have taken place in June 2003 but were actually posted on July 1, 2003. This amount is included in FY 2003 year -end totals. FY05 Other Transfers In does not include the \$433 million federal reimbursement resulting from the \$850 million Short-Term Borrowing for Medicaid. Administrative chargebacks and fund sweeps are fully reflected in Other Transfers In.

⁴ FY04 transfers only, not comparable in FY05.

Source: Office of the Comptroller and GOMB

APPENDIX II
GENERAL FUNDS
Cash Flow Summary
Second Quarter FY04 vs. FY05
(in millions)

	Second Quarter		Change		YTD		Change	
	FY 2004	FY 2005	Amount	Percent	FY 2004	FY 2005	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 319	\$ 292	\$ (27)	-8.46%	\$ 317	\$ 182	\$ (135)	-42.6%
Total Revenues	\$ 5,527	\$ 5,332	\$ (195)	-3.53%	\$ 11,156	\$ 11,286	\$ 130	1.2%
Total Transfers In ¹	\$ 412	\$ 501	\$ 89	21.60%	\$ 831	\$ 1,105	\$ 274	33.0%
Total, Revenues and Transfers In	\$ 5,939	\$ 5,833	\$ (106)	-1.78%	\$ 11,987	\$ 12,391	\$ 404	3.4%
Transfer from Pension Contribution Fund ²	\$ 444	\$ -	\$ (444)	-100.00%	\$ 965	\$ -	\$ (965)	-100.0%
Total, Operating Cash Receipts	\$ 6,383	\$ 5,833	\$ (550)	-8.62%	\$ 12,952	\$ 12,391	\$ (561)	-4.3%
Transfer from Budget Stabilization Fund	\$ -	\$ 276	\$ 276	n/a	\$ 226	\$ 276	\$ 50	22.1%
TOTAL, CASH RECEIPTS	\$ 6,383	\$ 6,109	\$ (274)	-4.29%	\$ 13,178	\$ 12,667	\$ (511)	-3.9%
Disbursements:								
Awards and Grants:								
State Board of Education	\$ 1,410	\$ 1,515	\$ 105	7.45%	\$ 2,501	\$ 2,647	\$ 146	5.8%
Public Aid	\$ 1,458	\$ 1,616	\$ 158	10.84%	\$ 3,575	\$ 2,898	\$ (677)	-18.9%
Human Services	\$ 664	\$ 737	\$ 73	10.99%	\$ 1,388	\$ 1,542	\$ 154	11.1%
Teachers Retirement	\$ 246	\$ 243	\$ (3)	-1.22%	\$ 498	\$ 447	\$ (51)	-10.2%
Higher Education	\$ 224	\$ 220	\$ (4)	-1.79%	\$ 377	\$ 362	\$ (15)	-4.0%
All Other Grants	\$ 326	\$ 363	\$ 37	11.35%	\$ 647	\$ 670	\$ 23	3.6%
Total, Awards and Grants	\$ 4,328	\$ 4,694	\$ 366	8.46%	\$ 8,986	\$ 8,566	\$ (420)	-4.7%
Operations:								
Other Agencies	\$ 1,318	\$ 1,208	\$ (110)	-8.35%	\$ 2,521	\$ 2,473	\$ (48)	-1.9%
Higher Education	\$ 513	\$ 442	\$ (71)	-13.84%	\$ 941	\$ 806	\$ (135)	-14.3%
Total, Operations	\$ 1,831	\$ 1,650	\$ (181)	-9.89%	\$ 3,462	\$ 3,279	\$ (183)	-5.3%
Regular Transfers Out	\$ 406	\$ 483	\$ 77	19.01%	\$ 875	\$ 1,324	\$ 449	51.3%
All Other (Includes Prior Year Adjustments)	\$ 3	\$ 4	\$ 1	33.33%	\$ 14	\$ 51	\$ 37	264.3%
Vouchers Payable Adjustment ¹	\$ (442)	\$ (959)	\$ (517)	116.97%	\$ (418)	\$ (1,475)	\$ (1,057)	n/a
Total, Base Expenditures	\$ 6,126	\$ 5,872	\$ (254)	-4.14%	\$ 12,919	\$ 11,745	\$ (1,174)	-9.1%
Transfers to Repay Short-Term Borrowing ³	\$ 230	\$ 278	\$ 48	20.79%	\$ 230	\$ 853	\$ 623	n/a
TOTAL, DISBURSEMENTS	\$ 6,356	\$ 6,150	\$ (206)	-3.24%	\$ 13,149	\$ 12,598	\$ (551)	-4.2%
AVAILABLE CASH BALANCE, ENDING	\$ 346	\$ 251	\$ (95)	-27.46%	\$ 346	\$ 251	\$ (95)	-27.5%

¹ Does not include the \$144 million in transfers that were posted on July 1, 2003 and related disbursements that occurred in July 2003 that should have taken place in June 2003. This amount was included in FY2003 year-end receipts.

² FY04 transfers only, not comparable in FY05.

³ This is the repayment related to the \$850 million short -term borrowing for Medicaid used to generate additional federal reimbursement in FY 04. The Comptroller's Office included these transfers in the Regular Transfers Out.

Source: Office of the Comptroller and GOMB